

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: 19102

IMPLEMENTATION COMPLETION REPORT

ALBANIA

REHABILITATION CREDIT

(Credit No.3015-AL)

March 30, 1999

Human Development Sector Department
Europe and Central Asia Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS

(as of January 25, 1999)

Currency Unit = Lek
US\$1 = 140.58 Lek

AVERAGE EXCHANGE RATES

(Lek per US\$1)

<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
150.63	148.93	104.5 Lek	92.8 Lek	94.7 Lek	102.1Lek

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

ARC - Albania Rehabilitation Credit
BOA - Bank of Albania
CAS - Country Assistance Strategy
CEO - Chief Executive Officer
ESAF - Enhanced Structural Adjustment Facility
EU - European Union
GDP - Gross Domestic Product
GOA - Government of Albania
IDA - International Bank for Reconstruction and Development
IMF - International Monetary Fund
MOLSA - Ministry of Labor and Social Affairs
MOF - Ministry of Finance
NCB - National Commercial Bank
NE - *Ndihma Ekonomike* (Social Assistance)
NES - National Employment Service
NGO - Non-Governmental Organization
PHRD - Policy and Human Resources Development Fund
PSR - Project Status Report
RCB - Rural Commercial Bank
SB - Savings Bank
SII - Social Insurance Institute
VAT - Value Added Tax

BORROWER'S FISCAL YEAR

January 1 - December 31

Vice President:	Johannes Linn, ECAVP
Country Director:	Arntraud Hartmann, ECC02
Team Leader:	Helena Tang, ECSPE
Sector Leader:	Michal Rutkowski, ECSHD

IMPLEMENTATION COMPLETION REPORT

ALBANIA

REHABILITATION CREDIT (Credit 3015-AL)

CONTENTS

Preface	i
Evaluation Summary.....	ii
PART I. PROJECT IMPLEMENTATION ASSESSMENT	1
A. Background and Statement and Evaluation of Objectives.....	1
B. Achievement of Objectives.....	4
C. Major Factors Affecting the Project.....	6
D. Project Sustainability.....	6
E. Bank Performance	7
F. Borrower Performance.....	7
G. Assessment of Outcome.....	7
H. Future Operations.....	8
I. Key Lessons Learned.....	8
PART II. STATISTICAL ANNEXES.....	9
Table 1: Summary of Assessments.....	10
Table 2: Related Bank Loans/Credits.....	11
Table 3: Project Timetable.....	12
Table 4: Loan/Credit Disbursements: Cumulative Estimated and Actual.....	12
Table 5: Key Indicators For Project Implementation.....	12
Table 6: Key Indicators for Project Operation.....	12
Table 7: Studies Included in Project.....	12
Table 8A: Project Costs.....	13
Table 8B: Project Financing.....	13
Table 9: Economic Costs and Benefits.....	13
Table 10: Status of Legal Covenants.....	13
Table 11: Compliance with Operational Manual Statements.....	13
Table 12: Bank Resources: Staff Inputs.....	14
Table 13: Bank Resources: Staff Missions.....	15
APPENDIXES.....	16
Appendix 1. Policy Matrix	
Appendix 2. Borrower's Contribution to the ICR	
Appendix 3. Map	

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

IMPLEMENTATION COMPLETION REPORT**ALBANIA****REHABILITATION CREDIT (Credit 3015-AL)****Preface**

This is the Implementation Completion Report (ICR) for the Rehabilitation Credit in Albania (ARC). The Credit 3015-AL (SDR 18.3 million or US\$25 million equivalent) was approved on December 9, 1997 and became effective on March 19, 1998.

The ARC was closed on December 31, 1998, the original closing date. A single tranche was released upon effectiveness, on standard International Development Association (IDA) terms.

The ICR was prepared by Laura Alonso-Escartin (ECC02) of the Europe and Central Asia Region and reviewed by Helena Tang (ECSPE). Comments provided by the borrower have been included as an appendix.

The preparation of this ICR is based on the project files of the ARC and of the following projects: Social Safety Net Development Project (2543-AL), Labor Market Development Project (2544-AL), Technical Assistance Project for Economic Reform (2492-AL), Enterprise and Financial sector Adjustment Credit (2649-AL) and the Recovery Program Technical Assistance Project (3016-AL).

IMPLEMENTATION COMPLETION REPORT

ALBANIA

REHABILITATION CREDIT (Credit 3015-AL)

Evaluation Summary

Introduction

i. When it joined the World Bank Group in 1992, Albania had just emerged as a democracy, after 47 years of autarky and communist rule. It needed assistance across all sectors. The International Development Association's (IDA) strategy envisaged an intensive policy dialogue, complemented by an International Monetary Fund (IMF) macroeconomic stabilization program. IDA's areas of special attention included rehabilitation of basic infrastructure, development of private agriculture and a social safety net, restoration of basic education and health services, privatization of small and medium scale enterprises, downsizing large state owned enterprises (SOEs), development of a financial system, and normalization of relations with external creditors.

ii. In the 1992-1996 period, 22 projects were approved for Albania. The Bank undertook six operations in the agriculture sector, since this sector would have the largest impact on poverty reduction. Transport infrastructure received three IDA operations focusing on national and rural roads, and there were two operations in the energy sector and seven on human resource development (including health, education, and the social safety net). The urban sector received two IDA credits, one to support the housing sector and a second one to deliver microcredit and small urban works by participatory means. The industry and finance sectors were the focus of an Enterprise and Financial Sector Adjustment Credit (EFSAC) which supported the development of the banking system, the continued privatization in the industrial sector, and the liquidation or downsizing of non-viable SOEs. The Technical Assistance for Economic Reform project also supported the government's privatization efforts.

iii. Following the smooth transition started in 1992, Albania descended into near anarchy and civil war in early 1997, mainly as a result of the collapse of the pyramid schemes. The collapse of the schemes, which emerged in the absence of an adequate regulatory framework, resulted in rioting, civil unrest, reportedly 1500 deaths, major damage to buildings and infrastructure, and had devastating effects on the economy.

iv. The donor community, in close cooperation with the Government, moved rapidly to assist Albania in the preparation of a Recovery Program outlining priority areas for policy reform and investment in the post-crisis period. The Program envisaged two stages for the country's recovery. The **first stage** included short-run measures to undertake macroeconomic stabilization and a limited number of high priority structural reforms; the **second stage** will deal with remaining structural reforms in the financial sector, public administration and civil service, judicial reforms, institution building, and remaining privatization issues. The first stage was supported by an International Monetary Fund (IMF) six-month Emergency Assistance Program and the IDA Albania Rehabilitation Credit (ARC). The ARC was accompanied by a Recovery Program Technical Assistance project designed to help the ARC in reform implementation.

Project Objectives

v. The ARC was a quick-disbursement, one-tranche credit designed to provide immediate balance of payments assistance for the implementation of urgent structural reforms and poverty alleviation measures after the 1997 crisis. The ARC set a number of high priority reforms as conditions to be met prior to Board presentation in addition to medium-term, or follow-up actions, designed to generate continuity to the next adjustment operation but are not legally binding in the Development Agreement.

vi. Specifically, the Credit supported: (i) the resolution of the pyramid schemes; (ii) the reform of the banking system; (iii) the strengthening of the social safety net; and (iv) employment promotion. The policy conditions designed to achieve these objectives are specified in the policy matrix in the President's Report (Annex 2) which can also be found in Appendix 1 of this report.

Implementation Experience and Results

vii. The ARC was successful in meeting its objectives. All necessary conditions prior to Board presentation were met, and there was significant progress in implementing most of the follow-up measures. More specifically:

- The pyramid schemes were dismantled. Deloitte & Touche consultants were appointed as administrators for the five companies that had not declared bankruptcy in the end of 1997, and are in the process of auctioning recovered assets. In addition, PricewaterhouseCoopers consultants are auditing these five companies and administering and auditing the twelve remaining bankrupt schemes. Work is expected to conclude in March 1999, instead of December 1998, because of the September 1998 disturbances.
- In the banking sector, significant efforts were made to encourage private commercial banking. The Rural Commercial Bank (RCB), one of the three state-owned banks, was closed, while the Savings Bank (SB) and the National Commercial Bank (NCB) are taking the necessary steps for privatization under foreign CEOs. International accounting standards are being implemented for the NCB and SB while audits for the state banks have been prepared by international accounting firms. There were some delays in implementation of follow-up measures because of the events of September.
- The operations of the social safety net were restored. The government had resumed payment of the full budgeted amount of social assistance benefits to local authorities and it raised average benefit by 10 percent in the 1998 budget to offset part of the real decline in benefit level. In addition, the early release (April 1998) of the capital investment budget for social welfare institutions for the elderly and orphans was introduced into the 1998 draft budget.
- With respect to employment promotion, an agreement was reached with the Bank to reduce the duration, level, and eligibility of unemployment benefits in order to allow for a reduction in the tax rate for the unemployment insurance system. It was also agreed that efforts would be made to make the local labor offices more efficient. In addition, a national committee of public/community works was appointed to define criteria and procedures for these programs.

viii. Progress achieved under the ARC is sustainable, assuming internal security is maintained, and assuming that the political commitment to carry out structural reforms persists. The government that took office in September of 1998 is strongly committed to carrying out the necessary structural reforms following the advice of, and in close cooperation with IDA and the rest of the donor community.

Summary of Findings, Future Operations and Key Lessons Learned

ix. *Summary of findings.* Core reforms supported by the ARC were implemented as described in the President's Report. Yet poverty and unemployment remain at high levels, economic recovery is still fragile, the balance of payments remains weak, and serious structural and institutional problems remain. While the ARC contributed significantly to restoring stability to Albania after the 1997 crisis, much needs to be done in order to ensure that the economic recovery is sustained. Ongoing and future operations need to ensure that necessary further structural and institutional measures are implemented. The ARC, in conjunction with contributions from other international donors and additional IDA funding, set the stage for the additional reforms that need to take place under a stable economic background.

x. *Future operations.* The Recovery Program Technical Assistance Project, an ongoing operation, complements the emergency support provided by the ARC by providing technical assistance to help implement the necessary undertakings in key areas of banking sector reform, and economic and public policy management. A Structural Adjustment Credit, currently under preparation, will place central emphasis on strengthening the public administration, in addition to supporting judicial reforms, banking and enterprise privatization, agricultural reforms and reforms in social protection. In addition, a future Banking Privatization Project will address issues relating to the privatization of the Savings Bank (SB) and the further promotion of private banking.

xi. *Key Lessons Learned:*

- Since the government was not legally bound to adopt the follow-up measures of the ARC, some of them were not accomplished; this can be attributed to the fact that: (1) they were not specific to the projects used to monitor the follow-up measures of the ARC; and (2) the greater priority accorded to resolving the problems caused by the pyramid schemes and in reforming the banking sector than to the social sector, which explains why regarding the social safety net and employment promotion, follow-up measures were partially achieved and at a slow pace.
- Sectoral policy reforms, like those in Employment Promotion, and to a lesser extent in the banking sector, can be slowed down by institutional issues and changes in government. Many of these reforms involve the approval of laws by Parliament, and this process can be significantly hampered by internal political pressures and weak governance, as in Albania.
- Timeliness was important for the success of the ARC. Given the crisis situation in Albania at the time of preparation at the economic, political, and social levels, the close collaboration between the Bank and the government provided the needed balance of payments support and a basis for continuing dialogue and fruitful cooperation.

IMPLEMENTATION COMPLETION REPORT

ALBANIA

REHABILITATION CREDIT (Credit 3015-AL)

PART I. PROJECT IMPLEMENTATION ASSESSMENT

A. Background and Statement and Evaluation of Objectives

1. *Background.* In the 1992-1996 period, 22 projects were approved for Albania. The Bank undertook six operations in the agriculture sector, since this sector would have the largest impact on poverty reduction. Transport infrastructure received three IDA operations focusing on national and rural roads, and there were two operations in the energy sector and seven on human resource development (including health, education, and the social safety net). The urban sector received two IDA credits, one to support the housing sector and a second one to deliver microcredit and small urban works by participatory means. The industry and finance sectors were the focus of an Enterprise and Financial Sector Adjustment Credit (EFSAC) which supported the development of the banking system, the continued privatization in the industrial sector, and the liquidation or downsizing of non-viable SOEs. The Technical Assistance for Economic Reform project also supported the Government's privatization efforts.

2. Following the 1997 crisis, sparked by the mushrooming of pyramid schemes, which disrupted political, economic and social life in Albania, the donor community moved rapidly to assist the country in the preparation of a Recovery Program outlining priority areas for policy reforms and investments in the post-crisis period. The Recovery Program was structured around three main themes: (1) governance, institution building and civil society; (2) economic and social policies; and (3) reviving of economic activities.

3. The Program envisaged two stages for the country's recovery. The **first stage** involved implementation of a set of initial measures to undertake macroeconomic stabilization, and a limited number of high priority structural reforms. The measures were supported by a six-month IMF Emergency Assistance Program approved on November 7, 1997. The World Bank (WB) contributed to this first stage of recovery with emergency balance of payments support under the Albania Rehabilitation Credit (ARC), and a Recovery Program Technical Assistance project designed to help the ARC in reform implementation. The World Bank secured implementation of the recovery program through the disbursement of the second tranches of two IDA adjustment lending operations: the Agricultural Sector Adjustment Credit (2524-AL) and the Enterprise and Financial Sector Adjustment Credit (2649-AL). In addition, to provide financing for the winding down of pyramid schemes, a special technical assistance program was created with funds committed by IDA and cofinanced by five other donors.

4. Satisfactory implementation of measures under the ARC, including those measures to be taken after Board presentation, were critical for the IMF and the IDA to move forward into the **second stage** of assistance, based on a three-year IMF Enhanced Structural Adjustment Facility (ESAF) arrangement, (approved in May 1998), which followed the Fund's Emergency Assistance Program. The ESAF will be accompanied by an IDA Structural Adjustment Credit (SAC) (under preparation), which will focus on strengthening the public administration, in addition to

supporting judicial reforms, banking and enterprise privatization, agricultural reforms, and reforms in social protection.

5. Albania's steady recovery path after the 1997 disturbances was threatened once again in September 1998, when the Government collapsed very briefly during an attempted coup d'état by the opposition leader. The coup failed but the Prime Minister resigned and a new Government was appointed. The incident had no apparent impact on the economy but it slowed down operations.

6. *Statement of Objectives.* The ARC, as envisaged in the President's Report, provided quick-disbursing financial support for the first set of structural measures to be implemented by the Government after the 1997 crisis. These structural reforms addressed some of the key weaknesses which contributed to the crisis, and aimed at alleviating increased poverty and unemployment levels. Specifically, the ARC supported: (i) the unwinding of the pyramid scheme companies; (ii) reforms in the banking sector; (iii) the strengthening the social safety net; and (iv) employment promotion. Performance of the ARC is based on the achievement of reforms under the above mentioned categories, which are expanded below. Reforms were to be achieved by the time of Board approval, except for follow-up measures, which were meant to ensure continuity to the next adjustment operations but were not legally binding to the ARC. (See Appendix 1 for a matrix outlining these reforms, as they appeared in the President's Report).

7. Pyramid schemes. Establishing full control of the pyramid scheme companies was essential to ensuring a successful post-crisis recovery program and restoring economic and social activity in Albania. The ARC supported the appointment of external administrators for the five large schemes that had not declared bankruptcy by the end of 1997. In addition, the ARC recommended, as a follow-up measure, the Government's appointment of external administrators and auditors for the remaining twelve pyramid schemes by December 1997.

8. Banking sector reform. A functioning banking sector needs to be in place in Albania to promote efficient intermediation of financial resources towards productive uses and to help minimize the recurrence of pyramid schemes in the future.

9. **First**, there was a need to increase competition in, and enhance performance of the banking system through greater private sector participation. To this end, the ARC supported measures to prepare Albania's three state-owned banks for privatization or liquidation, which involved, as first steps, restricting lending for the three banks, approving terms of reference for foreign administrators for the national Commercial Bank (NCB) and the Rural Commercial Bank (RCB), and ceasing intermediation of foreign donor commercial credit lines through the three state banks. Follow-up measures set deadlines for the appointment of Chief Executive Officers (CEOs) for the NCB and RCB, the liquidation (if not privatized) of the NCB, the liquidation of the RCB, the transfer of foreign donor credit lines to private banks, the conversion of the Savings Bank (SB) into narrow bank in preparation for privatization and its compensation for services rendered to the Treasury, and amendments to the law(s) on Privatization of State-Owned Banks.

10. **Second**, there was a need to provide adequate infrastructural and institutional support to ensure that the newly privatized banks and potential new entrants into the system conduct banking businesses in accordance with commercial principles. To this end, the ARC supported the approval of the terms of reference for the audits of the NCB and SB. Follow-up measures set deadlines for the completion of audits, the implementation of international accounting standards for the RCB and the SB, and the establishment of a work-out agency/resolution trust to collect bad loans under a terms of reference satisfactory to IDA.

11. (iii) Social safety net. Protecting the increased number of impoverished households was, and continues to be, an essential need in Albania. The ARC supported the strengthening of the Ndhima Ekonomike (NE), a cash benefit scheme which is the main poverty alleviation program in Albania, which suffered from reductions in revenues, damages to local offices, and a drop in the real level of benefits, as a result of the 1997 crisis. The measures supported by the ARC included, **firstly**, ensuring the payment of the full budgeted amount of social assistance benefits to the local authority through the block grant in November and December, 1997, and introducing into the 1998 draft budget an increase of 10 percent in social assistance benefits; follow-up measures set January 1, 1998 as the date for implementing the payment of budget allocations.

12. **Secondly**, the ARC supported measures to improve the basic living conditions for the institutionalized elderly and orphans by introducing into the 1998 draft budget, early release (in April 1998) of the capital investment budget for social welfare institutions for the elderly and orphans and following up to this policy by establishing guidelines for Non Governmental Organizations' (NGOs) involvement in launching foster parenting and home care for the sick and elderly.

13. (iv) Employment Promotion. The unemployment insurance program was in need of reform to improve efficiency. The ARC supported measures to increase transparency in the budgeting of unemployment benefits; this required the presentation of an agreement between the Ministry of Labor and the Ministry of Finance on the transfer of responsibility for the payment of unemployment benefits from the Labor offices to the Social Insurance Institute (SII). This also allowed labor offices to focus on cost effective labor services. In addition, the ARC required the presentation of a proposal on the accounting procedures between the SII and the Treasury for the unemployment insurance program for IDA review, and it recommended the implementation of a new accounting system by March 1998.

14. Other measures supported by the ARC in this field aimed at reducing the costs of the unemployment benefits, by introducing proposals for adjustment to social insurance legislation to tighten the link between contributions and benefits on unemployment benefits. As a follow-up, adjustments to the social insurance legislation, and adoption of the Employment Promotion Law satisfactory to IDA, was to be adopted by March 1998.

15. Ensuring the functioning of community works programs was also a priority of the ARC in this area, since they employ social insurance claimants in addition to rehabilitating needed infrastructure. However, it is important that community works programs are not solely established to employ social assistance claimants and that these works are justified by sound economic criteria and implemented by capable and effective agencies. The ARC required the presentation of a terms of Reference for the National Committee on Public/Community works, satisfactory to IDA, and the appointment of a National Committee on Public/Community works to define criteria and procedures for operating these programs. As a follow-up measure, the ARC suggested the development of an action plan and guidelines on community works programs, satisfactory to IDA by March 1998.

16. *Evaluation of Objectives*. The one-tranche Credit set a number of ambitious but realistic policy reforms to be taken before Board Presentation. This set of reforms was crucial for the fulfillment of the Credit's main objective of addressing the key structural weaknesses which contributed to the crisis and on alleviating the burden on the poor caused by the crisis. The successful implementation of the ARC was important for ensuring a smooth move towards the second stage of economic recovery, which will include additional IMF and IDA support.

B. Achievement of Objectives

17. Achievement of the project objectives was satisfactory. All necessary measures regarding the resolution of the pyramid schemes, reform of the banking sector, strengthening of the social safety net, and employment promotion were adopted prior to Board approval, as originally envisaged.

18. The follow-up measures to be adopted after Board approval, designed to ensure continuity with future operations and not legally binding to the ARC, were partially achieved. There was significant progress in the implementation of these measures for the winding up of the pyramid schemes and in the banking sector, while progress was slower in employment promotion and the social safety net, where major institutional changes were not achieved.

19. There was significant progress in restoring macroeconomic stability after the crisis. The hiking of the Value Added Tax (VAT) from 12.5 to 20 percent helped contain the domestically financed fiscal deficit to 11% in 1997, well below the targeted level. Inflation slowed down, confidence in the lek was recovered, and internal security improved. Economic activity picked up in the second half of 1997, limiting the year decline in GDP to seven percent. Progress on reforms supported by the ARC is analyzed below.

20. Dismantling the Pyramid Schemes. No known pyramid scheme operates in Albania today, and progress in unwinding existing schemes is substantial. In terms of the measures supported by the ARC, qualified administrators from Deloitte and Touche were appointed in November 1997 to wind up the five large schemes which had remained operative in 1997, and are currently in the process of auctioning recovered assets successfully. PricewaterhouseCoopers (PwC) performed the audit of these schemes. In addition, and in accordance with the ARC's follow-up measures, in April 1998, PwC consultants were appointed as administrators and auditors of the remaining twelve smaller companies identified by the Government as having operated pyramid schemes, all of which had ceased operations by February 1997. PwC is focusing work on those schemes whose assets have been recovered. The work on the pyramids will be extended from end-December 1998 to end-March 1999, due to the disturbances of September 1998.

21. Banking Sector Reform. Specific actions supported by the ARC in this sector are now in place. (i) Concerning measures aimed at enhancing private sector participation, the following has been accomplished to this day:

22. RCB. As of December 31, 1997, the banking operations of the RCB were suspended, and the majority of the deposits, and a corresponding amount of illiquid assets were transferred to the SB. The remaining assets and liabilities have been transferred to the newly established Bank Assets and Resolutions Trust (BART). A senior staff of Ministry of Finance (MoF) has been put in charge of transferring the foreign credit lines of the RCB. The remainder of the RCB was closed at end-March 1998, well ahead of the targeted deadline of end-June 1998. The existing gap between the transferred liabilities and assets of the RCB has not been compensated for by MoF, and the audit report on its closure has not been finalized. Some delays are attributed to the disruption in September 1998.

23. NCB. The Government has appointed a foreign CEO and a team of foreign bankers for the NCB based on a terms of reference satisfactory to IDA to restructure and privatize the bank. Presently, six potential strategic investors are interested in the NCB. Presentations for the NCB and the MoF from these potential investors was postponed as a result of the adverse September developments in Albania, but were rescheduled for December. Over 50 percent of the NCB will

be sold to a strategic private investor and the rest will be shared between the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC). There are strong prospects for the bank's privatization by June 1999.

24. SB. A governance contract was signed in May 1998 for the SB, which provided for the participation of a reputable foreign bank in managing the bank and preparing it for privatization by end-1999. Progress in implementing the contract has fallen behind schedule due in part to the adverse developments in September 1998.

25. (ii) Concerning the provision of adequate infrastructural and institutional support, the following has been accomplished:

26. In accordance with the follow-up measures of the ARC, the People's Assembly enacted the Bank Assets Resolution Trust Law on April 30, 1998. The BART is responsible for the collection of the bad loan portfolio of the state banks. The December 12, 1997 Merger and Sale Agreement between the SB and the RCB earmarked lek 200 million from the liquid assets of the RCB as working capital for BART, which are temporarily invested in interest-bearing deposits with the SB.

27. Contract negotiations were completed with one of the Big-Six auditors to carry out the financial audits of the 1997 accounts for the NCB and the SB and a special audit of the remaining portfolio of the RCB. The contracts for both tasks were signed on May 11, 1998. Audits for the SB and RCB are not completed, and the audit for the NCB was finalized in October 1998, slightly behind schedule. In addition, a new chart of accounts has been established for banks to help ensure transparent financial reporting consistent with International Accounting Standards (IAS). The SB and the NCB are implementing the new chart of accounts.

28. Social Safety Net. Improvements in the internal security situation have facilitated the recovery of the social safety net, and the NE in particular. In general, the NE has been successful at reaching the poor, yet the civil disturbances of 1997 may have resulted in escalated abuse and higher leakage of resources to the non-poor. The NE is administered by local governments but is funded by a central block grant, which was withdrawn by the Ministry of Labor Affairs (MOLSA) as a result of the civil unrest of 1997. Measures to restore the operation of the social safety net, like restarting to pay the full budgeted amount of social assistance benefits to local authorities through the block grant in November and December 1997, and raising the average benefit a further 10 percent to partially offset the real decline, were accomplished.

29. Concerning the improvement of the basic living conditions for the institutionalized elderly and orphans, the Government agreed to introduce in the draft 1998 budget the early (April 1998) release of the 1998 capital budget allocation for institutions for the elderly and orphans in a front-loaded manner, in order to allow institutions to have enough time to complete contractual arrangements to improve their facilities. However, the Government has yet to establish guidelines for NGO involvement in launching foster parenting and home care for the sick and the elderly. The agreement was that these guidelines were to have been established by June 1998.

30. (iv) Employment Promotion. Although all board conditions were met, progress has been slow in the compliance with the follow-up measures in this area. Concerning efforts to provide transparent accounting and efficient delivery of benefits, an agreement was reached with the Bank to reduce the duration, level and eligibility of unemployment benefits in order to allow for a reduction in the tax rate for the unemployment insurance program (the tax is currently 6 percent of wages, high enough to create distortions in the labor market and to contribute to the growing

informalization of the economy). However, the Government has not adopted adjustments to social insurance legislation reflecting these changes; it was agreed that as a follow up, these changes should be adopted by March 1998.

31. In addition, agreement was reached prior to Board presentation on the transfer of responsibility for the financial accounting and delivery of unemployment benefits, now spread across the Local Labor Offices, the Treasury Department and the SII, to the SII. Discussions on the transfer of benefit payment to local offices of the SII have not had any results yet. A new financing and accounting system for the unemployment insurance program has not been implemented. The World Bank received a proposal prior to Board presentation, but the proposal was found not to be satisfactory. The World Bank sent comments on the proposal but the Government has not yet responded to the comments. The agreement was that the two measures should have been adopted by March 1998.

32. The Employment Promotion Law which the Government had agreed to adopt by March 1998 is currently in draft form. IDA has provided comments on this law to the Government, and it is expected that the law be sent for approval to the parliament before the end of the year.

33. The recent reshuffling of the Cabinet has resulted in the replacement of the Minister of Social Affairs and Protection. The current Minister appears to be more open to reform measures and the pending measures on the social safety net and employment promotion fronts may now be adopted.

34. The government proposed to use ongoing and proposed community works programs to employ social assistance claimants and to provide screening and monitoring of social assistance claims. The government provided the Bank with a satisfactory terms of reference for the National Committee for Community/Public works and appointed a National Committee on Public/Community Works. The program remains voluntary, up to the discretion of the local communities. However, an action plan and guidelines on community works programs has not been developed.

C. Major Factors Affecting the Project

35. The ARC required the Government and implementing agencies (MOF and MOLSA) to comply with conditionalities prior to Board presentation. Close cooperation with the Government and a relative improvement in the security situation at the time of Board approval (December 1997), allowed the ARC to be processed as planned.

36. Two political risks affected implementation of the ARC's follow-up measures: the worsening of security in September 1998 and the changes in Government which accompanied it. All ongoing operations in Albania were slowed by the events of September, including the cabinet changes which ensued, although activity resumed quickly. Delays were significant in audit completion for the state owned banks, the privatization of the NCB and the SB, and the passing of the Employment Promotion Law.

D. Project Sustainability

37. Progress achieved under the ARC is sustainable, assuming internal security is maintained, and assuming that the political commitment to carry out structural reforms persists. The

Government that was appointed in September of 1998 was strongly committed to carrying out the necessary structural reforms following the advice of and in close cooperation with the donor community.

38. Other IDA Credits, like Social Safety Net Development, Labor Market Development, and the future Structural Adjustment Credit, build upon the conditionalities set by the ARC, and therefore, its sustainability depends also on the success of these projects.

E. Bank Performance

39. Bank performance was satisfactory. The Credit was processed on an accelerated schedule in order to contribute in the most effective manner to Albania's social and economic recovery after the 1997 crisis. Close cooperation between the Bank and the Government of Albania facilitated the process of identification and preparation; given the urgent need for the credit, was prepared in 45 days. Setting conditions to be met prior to Board approval ensured that the most important conditions were met, and it allowed the Bank to provide Albania with the proceeds of the ARC in a single tranche.

40. Given the fact that all conditions binding in the ARC were met prior to Board approval, supervision missions did not play a large role in this project. There were no specific missions in order to supervise the follow up measures that were to be adopted by the Government of Albania after Board. It was agreed in the President's Report that information on the pace of implementation of these non-binding conditions of the ARC was to be based on the aide memoirs and project status reports (PSRs) of other relevant ongoing IDA operations (Technical Assistance for Economic Reform, Enterprise and Financial Sector Adjustment Credit, Labor Market Development and Social Safety Net Projects). Some of these documents do not make specific reference to the follow-up measures of the ARC, therefore, in some cases, like in the social safety net and employment promotion sections, implementation of these follow up measures was poor.

F. Borrower Performance

41. Overall, Borrower performance was satisfactory. At the time of preparation there was close cooperation with the Bank in achieving the policy objectives to be met prior to Board presentation.

42. The ARC was specifically processed on an accelerated basis by the Bank in order to provide quick-disbursing emergency assistance to the Government of Albania. The Credit was expected to become effective soon after Board presentation on December 9, 1997; however, it did not do so until March 19, 1998. It is difficult to understand why the draw of funds occurred more than three months after board approval.

G. Assessment of Outcome

43. The project's outcome was satisfactory. All pre-Board conditions set by the ARC as described in the President's Report were met. Concerning follow up measures, progress was substantial in the areas of banking reform and the pyramid schemes, and slower and sometimes incomplete with respect to the social safety net and employment promotion component of the credit.

44. It is important to note that despite progress, poverty and unemployment are still at high levels in Albania, economic recovery is still fragile, the balance of payments remains weak, and serious structural problems remain. The ARC was successful in bringing back stability to Albania, however, much needs to be done by ongoing and future IDA and other donor operations in order to sustain economic recovery.

H. Future Operations

45. Progress achieved under the ARC will continue through the Recovery Program Technical Assistance Project, an ongoing operation, which complements the emergency support provided by the ARC by providing technical assistance to help implement the necessary undertakings in key areas of banking sector reform, and economic and public policy management. A Structural Adjustment Credit, currently under preparation, will place central emphasis on strengthening the public administration, in addition to supporting judicial reforms, banking and enterprise privatization, agricultural reforms and reforms in social protection. In addition, a Banking Privatization Project will address issues relating to the privatization of the Savings Bank (SB) and the further promotion of private banking.

I. Key Lessons Learned

46. The policy measures which were set as conditions to the ARC were helpful in supporting the resumption of the reform process in Albania. The crisis, although socially and economically devastating, led to the formation of a Government willing to commit to reform and to cooperate closely with the donor community, and the ARC was able to take advantage of this and move ahead with the basic structural reforms.

47. Since the Government was not legally bound to adopt the follow-up measures of the ARC, some of them were not accomplished; this can be attributed to the fact that: (1) they were not specific to the projects used to monitor the follow-up measures of the ARC; and (2) the greater Government priority accorded to resolving the problems caused by the pyramid schemes and in reforming the banking sector than to reforming the social sector, which explains why in regarding the social safety net and employment promotion, follow-up measures were partially implemented and at a slow pace.

48. Sectoral policy reforms, like those in Employment Promotion, and to a lesser extent in the banking sector, can be slowed down by institutional issues and changes in Government. Many of these reforms involve the approval of laws by Parliament, and this process can be significantly hampered by internal political pressures and weak governance, as in Albania.

49. Timeliness was important for the success of the ARC. Given the crisis situation in Albania at the time of preparation at economic, political, and social levels, the close collaboration between the Bank and the Government provided the needed balance of payments support and a basis for continuing dialogue and fruitful cooperation.

IMPLEMENTATION COMPLETION REPORT**ALBANIA****REHABILITATION CREDIT (Credit No.3015-AL)****PART II. STATISTICAL ANNEXES**

Table 1:	Summary of Assessments
Table 2:	Related Bank Loans/Credits
Table 3:	Project Timetable
Table 4:	Loan/Credit Disbursements: Cumulative Estimated and Actual*
Table 5:	Key Indicators for Project Implementation*
Table 6:	Key Indicators for Project Operation*
Table 7:	Studies Included in Project*
Table 8A:	Project Cost
Table 8B:	Project Financing
Table 9:	Economic Costs and Benefits*
Table 10:	Status of Legal Covenants*
Table 11:	Compliance with Operational Manual Statements*
Table 12:	Bank resources: Staff Inputs
Table 13:	Bank Resources: Missions

* Tables 4, 5, 6,7,9,10, and 11 are not included because they are not applicable to the ARC.

Table 1: Summary of Assessments

A. Achievement of objectives	Substantial	Partial	Negligible	Not Applicable
Macro Policies	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sector Policies	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial Objectives	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Institutional Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Physical Objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Poverty Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gender Issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other social objectives	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Environmental objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Public Sector Management	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Private sector development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other (specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
B. Project Sustainability	Likely		Unlikely	Uncertain
	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
C. Bank Performance	Highly Satisfactory		Satisfactory	Deficient
Identification/Preparation/ Appraisal	<input type="checkbox"/>		<input checked="" type="checkbox"/>	<input type="checkbox"/>
Supervision	<input type="checkbox"/>		<input checked="" type="checkbox"/> *	<input type="checkbox"/>
D. Borrower performance	Highly Satisfactory		Satisfactory	Deficient
Preparation	<input type="checkbox"/>		<input checked="" type="checkbox"/>	<input type="checkbox"/>
Implementation	<input type="checkbox"/>		<input checked="" type="checkbox"/>	<input type="checkbox"/>
Covenant Compliance (if applicable)	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Operation (if applicable)	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
E. Assessment of Outcome	Highly Satisfactory		Satisfactory	Deficient
	<input type="checkbox"/>		<input checked="" type="checkbox"/>	<input type="checkbox"/>

* **Note:** Supervision for the ARC was monitored through the following ongoing projects: Social Safety Net Development Project (2543-AL), Labor Market Development Project (2544-AL), Recovery Program Technical Assistance Project (3016-AL), Technical Assistance (2492-AL) and Enterprise and Financial sector Adjustment Credit (2649-AL).

Table 2: Related Bank Loans/Credits

Loan/Credit Title	Loan/ Credit Type	Purpose	Year of Approval	Status
1. Technical Assistance for Economic Reform (2492-AL)	TAL	Support implementation of reforms in macroeconomic management, enterprise restructuring and privatization, and financial sector reform.	FY93	Implementation nearing completion
2. Technical Assistance for Social Safety Net Development (2543-AL)	TAL	Reform of the Government's social protection system	FY93	Under implementation
3. Labor Market Development Project (2544-AL)	SIL	Assist the Government in creating the policy and institutional conditions for the development of an active and responsive labor market	FY94	Under implementation
4. Enterprise and Financial sector Adjustment Credit (2649-AL)	SAL	Assist the Government in privatizing state owned enterprises and initiating reforms of the banking sector	FY95	Implementation completed
5. Rehabilitation Credit (3015-AL)	SAL	Provide quick-disbursing funds in support of the Government's reform program	FY97	Implementation completed
6. Technical Assistance Recovery Program Project (3016-AL)	TAL	Support the implementation of high priority reforms under the ERP in the financial sector, public administration and project management and implementation	FY97	Under Implementation
7. Structural Adjustment Credit	SAL	Support reforms in public administration and the Judiciary, agriculture sector and the social insurance system	Exp. FY99	Preparation begun

Table 3: Project Timetable

Steps in Project Cycle	Date Planned	Date Actual
Identification/Preparation		Sept/Oct, 1997
Appraisal	October 10, 1997	October 10, 1997
Negotiations	October 28, 1997	October 28, 1997
Letter of Development Policy		November 12, 1997
Board Presentation	December 9, 1997	December 9, 1997
Signing		December 19, 1997
Effectiveness		March 19, 1998
Loan closing	December 31, 1998	December 31, 1998

Table 4: Loan/Credit Disbursements: Cumulative Estimated and Actual

Not applicable - The credit consisted of a one-tranche disbursement

Table 5: Key Indicators For Project Implementation

Not applicable

Table 6: Key Indicators for Project Operation

Not applicable

Table 7: Studies Included in Project

Not applicable

Table 8A: Project Costs

Item	Appraisal estimate (US\$ Million)			Actual/latest estimates (US\$ Million)		
	Local Costs	Foreign Costs	Total Costs	Local Costs	Foreign Costs	Total Costs
1. Rehabilitation Credit	0	25	25	0	25	25
Total	0	25	25	0	25	25

Table 8B: Project Financing

Item	Appraisal estimate (US\$ Million)			Actual/latest estimates (US\$ Million)		
	Local Costs	Foreign Costs	Total Costs	Local Costs	Foreign Costs	Total Costs
1. IDA	0	25	25	0	25	25
2. Other External Financing	--	--	--	--	--	--
Total	0	25	25	0	25	25

Table 9: Economic Costs and Benefits

Not Applicable

Table 10: Status of Legal Covenants

Not Applicable

Table 11: Compliance with Operational Manual Statements

Not Applicable

Table 12: Bank Resources: Staff Inputs

Stage of Project Cycle	Planned		Revised		Actual	
	Weeks	US\$(000)	Weeks	US\$(000)	Weeks	US\$(000)
Preparation to Appraisal	15	83.0	16.2	74.7	17.4	82.7
Appraisal			3.2	9.6	3.4	10.4
Negotiations through Board approval					4.6	27.5
Supervision Completion				5.0	0.1	.2
Total	15	83.0	19.4	89.3	25.5	120.8

Table 13: Bank Resources: Staff Missions

Stage of Project Cycle	Month/Year	No. of Persons	Days in Field	Specialization ¹	Performance Rating ²		Types of Problems ³
					Implementation Status	Development objectives	
Through Appraisal	8/97	5	10	E, F, L, H, O	S	S	
Appraisal through Board approval	10/97 12/97	4 3		E, H, L O, F, C	S	S	
Supervision ⁴							
Completion	--	--	--				

¹Specialized Staff skills:

E = Economist
 F = Financial Sector Specialist
 L = Labor Economist
 H = Human Resources Specialist
 O = Operations Analyst
 C = Consultant

²Performance Rating:

1 = Minor Problems
 2 = Moderate Problems
 3 = Major Problems
 HS = Highly Satisfactory
 S = Satisfactory

³Types of Problems:

F = Financial
 T = Technical
 M = Managerial

⁴ Supervision for the ARC was monitored through the following ongoing projects: Social Safety Net Development Project (2543-AL), Labor Market Development Project (2544-AL), Technical Assistance Recovery Project (3016-AL) and Enterprise and Financial sector Adjustment Credit (2649-AL).

IMPLEMENTATION COMPLETION REPORT
ALBANIA
REHABILITATION CREDIT (Credit No.3015-AL)

APPENDIXES

Appendix 1. Policy Matrix

Appendix 2. Borrower's Contribution to the ICR

Appendix 3. Map

Albania Rehabilitation Credit – Policy Matrix

Policy Areas: resolution of the pyramid schemes; reform of the banking sector; strengthening the social safety net; and employment promotion.		
Objectives	Measures Adopted by Board Presentation	Follow-Up Measures
Resolution of the Pyramid Schemes <ul style="list-style-type: none"> To wind up pyramid schemes 	<ul style="list-style-type: none"> Appoint external administrators for the five pyramid schemes which have not yet been declared bankrupt -- that is for Vefa, Silva, M Leka, Kamberi and Cenaj. 	<ul style="list-style-type: none"> Appoint external administrators/auditors for remaining twelve pyramid schemes by end-December 1997.
Reform of the Banking Sector <ul style="list-style-type: none"> To strengthen functioning of the formal banking sector 	<ul style="list-style-type: none"> Appoint qualified Albanian administrators/CEOs for NCB and RCB based on terms of reference agreed with IDA. Ministry of Finance and Bank of Albania to approve terms of reference agreed with IDA for the external administrators/CEOs who will assume full control of RCB and NCB. Put in place zero incremental credit ceiling for NCB. Maintain restriction of no lending by RCB. Put in place credit ceiling of Leks 200m. for SB for the last quarter of 1997. Approve terms of reference for audits of NCB and SB by accounting firms of international repute. Seek agreement from foreign donors to cease intermediating their commercial credit lines through RCB, NCB and SB. Accept no new foreign commercial credit lines for RCB, NCB and SB. 	<ul style="list-style-type: none"> Appoint by end-January 1998 foreign administrator/CEO for RCB (if not closed by then) who will act as liquidator. Appoint by end-January 1998 foreign expert as CEO for NCB. Sign governance contract satisfactory to IDA between the government and NCB (represented by the foreign expert appointed as CEO) by end-January 1998. Sign governance contract satisfactory to IDA between the government and the management of the SB by end-January 1998 which defines a program of conversion of the SB into a "narrow" bank. Sign contract with foreign bank by end-January 1998 based on terms of reference agreed with IDA to convert SB into a narrow bank and to prepare it for privatization. Amend by end-March 1998 the law(s) on Privatization of State-owned Banks to delegate authority from legislative to the executive branch for approval of privatization transactions. Transfer foreign donor commercial credit lines out of RCB, NCB and SB to private banks by end-March 1998. Establish work-out agency/resolution trust under terms of reference satisfactory to IDA by March 1998. Complete implementation of international accounting standards for NCB and SB by end-March 1998. Complete audits for NCB & SB by end-June 1998. Liquidate RCB by end-June 1998. Compensate SB for services rendered for the Treasury beginning July 1998. Liquidate NCB by end-1998 if not privatized.

<p>Strengthening the Social Safety Net (<i>Ndihme Ekonomike</i>)</p> <ul style="list-style-type: none"> To provide adequate and timely payment of social assistance payments including partial compensation for the loss in real value of social assistance payments since July 15, 1996 	<ul style="list-style-type: none"> Pay full budgeted amount of social assistance benefits to local authority through the block grant in November and December, 1997. Introduce into draft budget an increase of 10 percent in social assistance benefits above the average November-December 1997 level (that is Leks 2436 per month) starting 1 January 1998. 	<ul style="list-style-type: none"> Implement payment of increased level of social assistance on January 1, 1998 (that is 10 percent above the average November-December 1997 level of Leks 2436 per month).
<ul style="list-style-type: none"> Improve basic living conditions for the institutionalized elderly and orphans; develop programs to prevent institutionalization 	<ul style="list-style-type: none"> Introduce into draft budget release by April 1998 of 1998 capital investment budget for social welfare institutions for elderly and orphans. 	<ul style="list-style-type: none"> Establish guidelines for NGO involvement in launching foster parenting and home care for the sick and elderly to avoid the institutionalization of these groups by June 1998.
<p>Employment Promotion</p> <ul style="list-style-type: none"> To increase transparency of the budgeting of unemployment benefits; to reduce costs of the unemployment benefits program by linking benefits to contributions, and focus labor offices on cost effective labor services 	<ul style="list-style-type: none"> Introduce proposals for adjustments to social insurance legislation to tighten the link between contributions and benefits on unemployment benefits for IDA review. Present agreement between the Ministry of Labor and the Ministry of Finance on the transfer of responsibility for payment of unemployment benefits from the Labor Offices to the SII. Present proposal on the accounting procedures between the SII and the Treasury for the unemployment insurance program for IDA review. Present Terms of Reference for the National Committee on Public/Community Works, satisfactory to IDA. Appoint National Committee on Public/Community Works including representatives from Ministry of Finance, Ministry of Labor, Ministry of Public Works to define criteria and procedures for operating community works programs. 	<ul style="list-style-type: none"> Adopt adjustments to social insurance legislation satisfactory to IDA by March 1998. Adopt Employment Promotion Law satisfactory to IDA by March 1998. Implement new financing and accounting system for unemployment insurance program by March 1998. Develop action plan and guidelines on community works programs, satisfactory to IDA by March 1998.



REPUBLIC OF ALBANIA
Ministry of Finance
DEBT DEPARTMENT

Bul. "Deshmoret e Kombit", Tirane

Tel: 355 42 292 00

Fax: 355 42 29200

1/14/99

Tirana on March 10, 1999

To: Mrs. Arntraud Hartmann
Country Director
The World Bank
Washington, D.C.
U.S.A.

From: Anastas Angjeli
Minister of Finance

Subject: Albania Rehabilitation Credit - Implementation Completion Report

Dear Mrs. Hartmann,

Thank you for your letter dated February 25, 1999 including the draft of the Implementation Completion Report on the Rehabilitation Credit. I am pleased to confirm my consent on the proposed draft of ICR.

Thanking you for your cooperation, I remain

Yours sincerely

Anastas Angjeli
Minister of Finance



MAP SECTION

